BLUE OCEANS
CAPITAL

Monthly Newsletter - March

Hello there,

Welcome to the March newsletter.

To our investors - thank you for investing alongside us, for the long term.
In this edition you'll find:

- March performance
- SolarEdge Electric Drive-Train Rollout out in Fiat Delivery Van
- Feature Article - How The Trade Desk is Enabling a New Beginning for Sustainable Journalism

March Performance

Please find performance data by clicking on the links below.

Wholesale Strategy

Retail Strategy

March proved to be a volatile month with the rotation away from technology and growth companies into value, as described in the February newsletter. As discussed in that note, these rotations happen frequently and are often interrupted by earnings season where those fast growing businesses with strong financials report their results and the market is forced to recognise its error if the business was oversold.

However, this, of course won't always be the case. In some instances it will take more than one quarter for reversion to intrinsic value but as with reversion to mean reversion to intrinsic value is a principle and so it is not a question of if but when.

We are currently entering the March Quarter earnings season and we look forward to reading updates from companies in our strategies. Many are still impeded by the ongoing pandemic but are poised to recover well post pandemic while others are thriving under the current conditions.

SolarEdge Electric Drivetrain Rollout out in Fiat Delivery Van

The future of electric light commercial vehicles (e-LCV) looks promising. Deloitte forecasts global sales of electric vehicles to grow at a compounded annual growth rate of 29 percent between 2021-30 (see Figure 1)[1]. BloombergNEF predicts that worldwide 56% of light commercial vehicle sales and 31% of medium commercial vehicle sales will be electric by 2040 (see Figure 1)[2]. UK-based IDTechEx forecasts that global production of electric LCVs will exceed 2.4 million units annually by 2030[3].

This is a huge opportunity for e-LCV manufacturers, as well as their suppliers. While automobile manufacturing companies like Daimler, Fiat, Ford, Tata Motors, BYD, Nissan etc. have already launched LCVs in the market, many other major players like Hyundai, Volksvagen, Toyota etc. are working towards the same. The suppliers to e-LCV manufacturers include OEMs, battery manufacturers, systems suppliers, electric drivetrain parts suppliers, and full electric powertrain unit manufacturers etc.

Solaredge, a global leader in smart energy, forayed into e-mobility through the acquisition of a majority stake in electric powertrain company S.M.R.E. Spa ("SMRE"), headquartered in Italy. SolarEdge e-Mobility division now supplies integrated powertrain technology and electronics for electric motorcycles, commercial vehicles and trucks.

SolarEdge e-Mobility was selected to supply full electric powertrain units and batteries for Fiat's new light commercial vehicle line E-Ducato (see Figure 4). E-Ducato is the electric version of Fiat's Ducato van that is sold in over 80 countries, and the success of which is well established in European, Russian, Latin American markets. E-Ducato offers 2 configurations - one consists of three battery modules with 47 kWh for a range of roughly 143 miles, and the other consists of five battery modules with 79 kWh for a range of roughly 224 miles. The deliveries of E-Ducato will begin in May 2021, and they're taking orders now.[4]

There is still a lot of hard work to be done, but becoming a sole supplier for E-Ducato is a big win for SolarEdge's E-Mobility division, and speaks well of SolarEdge's decision and foresight to acquire SMRE in 2019.

Furthermore, it is noteworthy that it is the parent company Stellantis, of which Fiat is a subsidiary, that has selected Solaredge as their tier 1 supplier, as well as, the sole supplier of full electrical powertrain units for E-Ducato.[5]

Stellantis' portfolio is not merely limited to Fiat, but also includes brands like Abarth, Alfa Romeo, Chrysler, Dodge, DS Automobiles, Jeep, Lancia, Maserati, Mopar, Opel, Peugeot etc. Many of these brands are planning to go electric or have already gone electric. While qualifying as a tier 1 supplier for Stellantis does not automatically guarantee more contract wins, it presents an increase in the likelihood of more opportunities for SolarEdge through Stellantis. Additionally, being engaged with the high profile Stellantis is definitely beneficial for the overall brand reputation of SolarEdge.

We believe bagging this contract with Stellantis is an indicator of success and adds to the potential for more contract wins in E-Mobility for SolarEdge in the future.

Figure 4 New e-Ducato Electric - Van, Chassis Cab, People Mover [4]

Feature article

How The Trade Desk is Enabling a New Beginning for Sustainable Journalism.

by Will Simpson

High-quality journalism leads to better informed individuals, who consequently make better choices. Our interpretation of news forms the foundation of many of our opinions, which in turn leads to our decisions and behaviours. We need look no further than the 2016 US election to see what poor sources of information can do to societies.[6]

So what happened to quality journalism? For decades newspapers were a stable source of reliable articles, with funding coming from a constant stream of real estate and employment advertising.

Then came the age of the internet, and those advertisers all moved online under their own banners. Think realestate.com and seek.com.
Newspapers moved online too, however without real estate and employment advertising they were left with a serious deficit in their revenues. To fill the hole, online journalism turned to targeted advertising.

Tailoring ads to the needs of individual people doubled the sales those ads produced, which in-turn increased the advertising revenue received by news websites. To do this, information collected about users from movements on their browsers needed to be sent to individual website servers that could change the content of that website in a fraction of a second upon loading, depending on the buying habits of the individual viewing it. This personal data is stored in a cookie (think fortune cookie that carries a message). Cookies have served a purpose but they've really not done it very well.

Cookies are a legacy system from 1994

Cookies have been in place since 1994[7] and they don't function properly within today's internet. Users are spread across more connected devices than ever,using them interchangeably. Cookies don't work well because they're unable to transfer data across devices and not even between apps[8].

To track users as they move around, digital advertisers have had to build a work-around called cookie syncing, which involves identifying that a user on one site is the same person that came from another site. For example, a user adds a t-shirt to their cart but abandons that cart and moves to a news website. Cookie syncing is the process of identifying or matching that user across both sites (known as matching, and measured in match rates). This enables targeted ads (showing ads of the t-shirt to the user who is now reading news, to entice them to make the purchase). This process, as you may well imagine, drastically slows down the loading time of a web page and reduces match rates, which leads to lost revenue for publishers.

Cookies have become clunky, they're slowing the internet down, they're not very effective at carrying data and they're not very effective at protecting people's privacy. It's that last point that has become a big issue. Never has there been more pressure on big tech to protect people's privacy than right now and so it comes as no surprise that by 2022 google will be removing all cookies from its browser[9]. Seeing as cookies enable targeted advertising and journalists rely on targeted advertising for revenue, what does the removal of cookies mean for journalists?

Cookies come from Google but Google is not the whole internet

Cookies come from a web browser. For all intents and purposes let's call Google the browsing internet. The browsing internet is actually only 20% of global digital ad spend[10]. In the past few years, there has been a big shift away from browsers as the primary source of online content with users moving towards other platforms such as mobile apps, gaming consoles and connected TV[11].

Many users arrive at news publishers from outside of Google properties, mostly from social media. Case in point is that The New York Times receives over 90% of its users from outside of Google, they are not logged in[12]. With the removal of cookies what options do journalists have to monetise their audience that come from outside of Google? They could stop accepting users from outside of Google gateways significantly reducing their volumes. They could each put up their own walls and force every user to stop and log into every site before viewing. Or, they could force each user to sign up to a subscription to view content. None of these are good options. Each would leave publishers with significantly less revenue than they receive today[14].

According to Deloitte's Digital Media Trends Survey 65% of people want quality content in exchange for viewing advertising[13] and they need a means of doing that as shown in figure one below.

What's needed is a privacy protected way of identifying users buying habits on the open internet, without cookies. Something that would make it easy for users to participate in the value exchange of free quality content for viewing relevant ads, thus enabling both rigorous journalism and better informed individuals.

The Trade Desk's Unified ID 2.0

The Trade Desk has anticipated the demise of the cookie for a long time and has been working on a solution. Unified ID 2.0 has been designed to replace third-party cookies and give the consumer control over their data in a way cookies never could[14]. Consumers are able to control how their data is shared for the first time. And, because the ID2.0 contains no personal information (it's essentially anonymous) it offers a welcome level of privacy.

They will also have a better understanding of the value exchange taking place than ever before with a simple and clear explanation that they are viewing relevant ads in exchange for free quality content, and they only have to agree to it once. It does this through a universal ID, that's the same ID for the same user everywhere they go replacing individual cookies for individual sites and the whole cookie synching problem[11]. Match rates will be near 100%[9] (up from less than 80%[13]) resulting in far better revenues for journalists.

Society must have quality journalism to function sustainably

Quality journalism must be fueled by strong revenue sources and those sources need to include advertising because a significant portion of viewers will not exchange value in any other way. The demise of the cookie threatens a significant portion of journalists advertising revenue and so they are forced to act.

This situation is perhaps The Trade Desk's greatest moment.

UID 2.0 is the leading option to replace third-party cookies, while at the same time UID 2.0 allows innovation, monetisation and growth in a way that was never possible. The next few months will see plenty more commentary around the transition away from cookies, with many different views on what's to come next. Fundamentally, we see tremendous benefit for publishers and The Trade Desk with UID 2.0 creating a much better future for both in the post-cookie world of 2022.

All the best

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